

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SAM-01 SAB-01 AID-05 CIAE-00 COME-00

EB-04 FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 AGR-05

SWF-01 NSC-05 SS-15 STR-01 CEA-01 H-01 DODE-00 PA-01

USIA-06 PRS-01 ABF-01 FS-01 FEA-01 L-02 /082 W

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R 141113Z NOV 74

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 4583

INFO AMEMBASSY AMMAN

AMEMBSSY CAIRO

AMEMBSSY DAMASCUS

AMEMBASSY BEIRUT

AMCONSUL JERUSALEM

C O N F I D E N T I A L TEL AVIV 6578

E.O.11652: GDS

TAGS: ECON, PGOV, IS

SUBJECT: ISRAELI AUSTERITY PROGRAM- IMPACT ON

ADMINISTERED AREAS

REF: TEL AVIV 6495; TEL AVIV 6424, JERUSALEM 1991

1. SUMMARY:GOI ECONOMIC AUSTERTIY PROGRAM ANNOUNCED NOVEMBER 10 HAS POTENTIAL TO CAUS SERIOUS HARDSHIP IN ADMINISTERED AREAS(SEE JRUSALEM'S 1991). GOVERNEMTN IS REPORTEDLYCONSIDERING RELIEF MEASURES AS BULK OF POPULATION IN WEST BANK AND GAZA NOT PROTECTED BY ISRAELI COST-OF-LIVING ALLOWANCE SYSTEM. UNCERTAINTY OF CONTINUED TRANSFER PAYMENTS FROM JORDAN ADDS TO WEST BANK FEARS. END SUMMARY.

2. AUTSTERITY PROGRAM INCLUDED EXTENSIVE REDUCTIONS IN
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GOVERNMENT SUBSIDIES FOR BASIC COMMODITIES CAUSING

IMMEDIATE RISE IN PRICE OF FROM 50 TO 200 PERCENT FOR FOODSTUFFS SUCH AS MILK, BREAD, EGGS, SUGAR AND COOKING OIL. OFFICIAL GOI ESTIMATES IS THAT COST-OF-LIVING IN ISRAEL WILL RISE INITIALLY BY 17 PERCENT, BUT WE BELIEVE FIGURE COULD REACH NEARER 50 PERCENT OVER NEXT YEAR. IMPACT OF COMMODITY PRICE INCREASES WILL BE GREATER STILL IN ADMINISTERED AREAS WHERE PER CAPITA GNP IS ONE-EIGHTHS OF ISRAEL'S AND WHERE 35 PERCENT OF TOTAL DISPOSABLE PERSONAL INCOME IS SPENT ON FOOD (VERSUS 25 PERCENT IN ISRAEL).

3. ANNOUNCED GOI PLANS TO LESSEN IMPACT ON LOWER INCOME BRACKET WORKERS WILL NOT INCLUDE MAJORITY OF RESIDENTS OF ADMINISTERED AREAS. COST-OF-LIVING ALLOWANCES NEGOTIATED BY HISTADRUT APPLY AUTOMATICALLY TO ONLY 25-30 PERCENT OF LABOR FORCE WHICH IS EMPLOYED IN ISRAEL OR TO WORKERS IN ISRAELI-OWNED ENTERPRISES IN ADMINISTERED AREAS. ISRAEL NATIONAL INSURANCE INSTITUTE HAS BEEN DESIGNATED AS INSTRUMENT FOR MAKING ADDITIONAL CASH PAYMENTS TO WELFARE RECIPIENTS AS NECESSARY, BUT ONLY PERSONS LIVING OR WORKING IN ISRAEL ARE ELIGIBLE. GOVERNMENT HAS ANNOUNCED INTERIM ASSISTANCE TO WELFARE RECIPIENTS IN ADMINISTERED AREAS IN FORM OF TWO-MONTH ADVANCE OF IL 25 PER FAMILY MEMBER, AND HAS PROMISED TO DEVELOP MORE COMPREHENSIVE MEASURES AS IMPACT OF AUSTERITY PROGRAM BECOMES CLEARER.

4. WEST BANK RESIDENTS WILL BE FACED WITH ADDITIONAL DIFFICULTIES IF KING HUSSEIN MOVES TO DELIMIT JORDAN'S RESPONSIBILITY FOR WEST BANK IN WAKE OF RABAT SUMMIT. AT PRESENT WEST BANK HAS TRADE SURPLUS WITH JORDAN WHICH AMOUNTED TO J.D. 5.4 MILLION IN 1973 (EQUAL TO IL 68.5 MILLION AT OLD EXCHANGE RATE OR \$16.3 MILLION). THIS FOREIGN CURRENCY INCOME IS SUPPLEMENTED BY TRANSFER PAYMENTS FROM JORDAN IN FORM OF PENSION PAYMENTS TO FORMER OFFICIALS AND "SECOND" SALARIES FOR EMPLOYEES OF ISRAELI MILITARY GOVERNMENT, TOGETHER AMOUNTING TO MILLIONS OF ISRAELI POUNDS EVERY YEAR, AND BY LOANS DESIGNED TO MATCH THOSE MADE BY MILITARY GOVERNMENT TO MUNICIPALITIES AND VILLAGE COUNCILS. WHILE TOTAL INCOME FROM JORDANIAN SOURCES ACCOUNTS FOR LESS THAN 10 PERCENT OF WEST BANK GNP, IT IS POTENTIALLY IMPORTANT FACTOR IN MITIGATING IMPACT OF GOI AUSTERITY PROGRAM, CONFIDENTIAL

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AS JORDANIAN DINAR APPRECIATED WITH U.S. DOLLAR BY 43 PERCENT RELATIVE TO ISRAELI POUND. DANGER FOR ADMINISTERED AREAS, HOWEVER, IS THAT JORDAN MAY CUT OFF TRANSFER PAYMENTS AND LOANS AND EVEN REDUCE TRADE AS IT DRAMATIZES ITS LOWER RESPONSIBILITY FOR WEST BANK SINCE RABAT.

5. COMMENT: WE ARE INFORMED GOI BEGINNING REAPPRAISAL OF ITS POLICIES IN ADMINISTERED AREAS IN LIGHT OF RABAT DEVELOPMENTS

WITH VIEW TO MITIGATING ADVERSE EFFECTS OF RECENT ECONOMIC
AUSTERITY MEASURES IN WEST BANK AND GAZA.
ONE NEGATIVE RESULT OF TIMING OF NEW MEASURES WAS TO ENCOURAGE
SUPPORT FOR PARTIALLY SUCCESSFUL
GENERAL STRIKE ON NOVEMBER 13 ON WEST BANK TO COINCIDE
WITH OPENING OF UNGA DEBATE ON PALESTINIANS. ILL-WILL
ALREADY GENERATED AS WEST BANK AND GAZA RESIDENTS WATCHED
FOOD PRICES DOUBLE OVERNIGHT WILL NOT SOON BE DISSIPATED,
BUT GOI CLEARLY RECOGNIZES NEED TO TRY TO REDUCE DISPARITY
IN IMPACT BETWEEN ISRAEL AND ADMINISTERED AREAS. ACCORDINGLY,
WE EXPECT THAT RELIEF MEASURES FOR ADMINISTERED AREAS WILL
BE PROMINENT AMONG ADJUSTMENTS IN ECONOMIC PROGRAM GOI
WILL BE CONSIDERING IN COMING WEEKS.
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